Marsh & McLennan (MMC)

$116.71 (As of 07/30/20)

Price Target (6-12 Months): **$123.00**

Long Term: 6-12 Months	**Zacks Recommendation:**	**Neutral**
	(Since: 04/01/19)	
	Prior Recommendation: Outperform	
Short Term: 1-3 Months	**Zacks Rank:** (1-5)	**3-Hold**
	Zacks Style Scores:	VGM:D
	Value: D Growth: D Momentum: A	

Summary

Marsh & McLennan's earnings per share of $1.32 beat the Zacks Consensus Estimate by 15.8% on reduced expenses and a solid contribution from its Risk and Insurance Services segment. Moreover, the bottom line increased 11.9% year over year. Its shares have outperformed its industry in a year's time. The company is well-poised to grow on significant investments and acquisitions made within its operating units, launch of new products, enhancements to digital capabilities and branching out into new businesses. Its revenues have been increasing over the past many years. However, it has been suffering a low investment income phase. Its rising operating expenses and high debt level continue to bother. High exposure to adverse forex and weak guidance are other concerns.
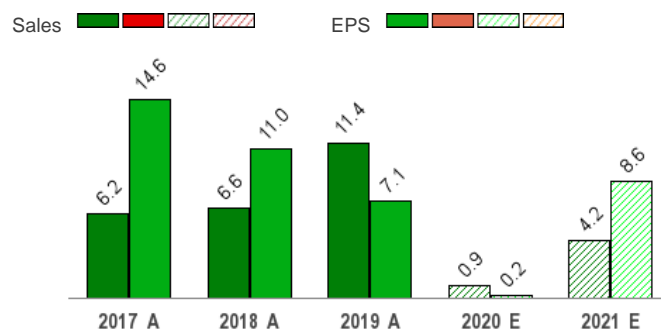
Price, Consensus & Surprise

Data Overview

52 Week High-Low	**$119.88 - $74.34**
20 Day Average Volume (sh)	**1,247,084**
Market Cap	**$59.1 B**
YTD Price Change	**4.8%**
Beta	**0.89**
Dividend / Div Yld	**$1.86 / 1.6%**
Industry	**Insurance - Brokerage**
Zacks Industry Rank	**Top 19% (48 out of 253)**
Last EPS Surprise	**15.8%**
Last Sales Surprise	**0.5%**
EPS F1 Est- 4 week change	**1.1%**
Expected Report Date	**11/03/2020**
Earnings ESP	**2.1%**
P/E TTM	**23.7**
P/E F1	**25.0**
PEG F1	**2.1**
P/S TTM	**3.5**

Sales and EPS Growth Rates (Y/Y %)

Sales Estimates (millions of $)

	Q1	Q2	Q3	Q4	Annual*
2021	4,737 E	4,412 E	4,053 E	4,451 E	17,494 E
2020	4,651 A	4,189 A	3,790 E	4,171 E	16,794 E
2019	4,071 A	4,349 A	3,968 A	4,264 A	16,652 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	$1.70 E	$1.31 E	$0.82 E	$1.28 E	$5.07 E
2020	$1.64 A	$1.32 A	$0.72 E	$1.15 E	$4.67 E
2019	$1.52 A	$1.18 A	$0.77 A	$1.19 A	$4.66 A

*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 07/30/2020. The reports text is as of 07/31/2020.

Overview

Founded in 1871 and based in New York, Marsh & McLennan Companies Inc. is a globally leading insurance broker. Currently operating under the Marsh and Guy Carpenter brands, the company is a global professional services firm providing risk and insurance services, risk consulting, and employee benefits consulting services to clients worldwide.

Marsh & McLennan provides insurance and consulting services through approximately 55,000 employees worldwide to clients in more than 130 countries. Geographically, 55% of Marsh & McLennan's revenues were generated from outside the U.S. while the remaining 45% was earned in the U.S.The company conducts business primarily through:

- **Risk and Insurance Services (Accounted for 57.6% of revenues in 2019):** This segment is operated through Marsh and Guy Carpenter. Marsh is world leader in insurance brokering, providing risk management, insurance and reinsurance broking and insurance program management services across public and private entities.

- **Consulting (42.4%):** This segment comprises Mercer and Oliver Wyman Group. Mercer is a leading global provider of consulting, outsourcing and investment services. Oliver Wyman Group delivers advisory services to clients through three operating units, each of which is a leader in its field. Lippincott helps clients create, develop and manage their corporate branding, identity and image. NERA Economic Consulting advises corporations, law firms and government entities on the economics of competition, regulation, public policy, finance and litigation.

EPS Hist. and Est.

Sales Hist. and Est.
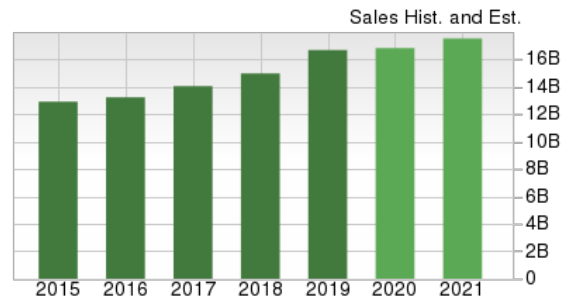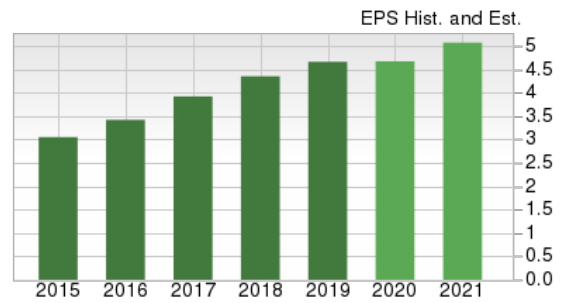
Reasons To Buy:

▲ **Growing Top Line:** Marsh & McLennan's operating performance has been favorable for the past many years, driven by its diverse product offerings, a wide geographic footprint and strong client retention. Its revenues have been increasing consistently since 2010 (except in 2015, which saw a revenue dip by just 0.4%). This trend continued in 2019 with the metric rising 11% year over year, which also marks the highest annual revenue growth rate for the company in 20 years. In the first six months of 2020, its revenues of $8.8 billion were up 5% (2% on an underlying basis) owing to a strong Risk and Insurances Services Segment. Although revenues might remain supressed this year due to the impact of COVID-19 pandemic, we are hopeful about the company's bottom line, which might bounce back on the back of acquisitions, significant capital expenditures undertaken for growth, launch of new product and services, enhancements to digital capabilities and branching out into new businesses.

> Strategic acquisitions, growing revenues on the back of diverse product offerings and capital deployment should drive long-term growth for the company.

▲ **Inorganic Growth:** Acquisitions form one of the core growth strategies at Marsh and McLennan. The company has made numerous purchases within its different operating units that have enabled it to enter new geographical regions, expand within the existing ones, foray into new businesses, develop new segments and specialize within its existing businesses. The company's acquisition of JLT in 2019 has expanded its capabilities going forward. The Risk and Insurance Services segment completed two acquisitions in the first quarter. In the first six months of 2020, the company spent $1.2 billion on buyouts. Constant buyouts made by company poise it well for long-term growth.

▲ **Capital Deployment:** The company has maintained a strong balance sheet and financial flexibility, including consistent cash flow generation, for the past many years. Its disciplined capital management through share buyback and dividend payments has cemented investors' confidence in the stock. In July 2020, its board of directors hiked its quarterly cash dividend by 2.2%, reflecting the 11th consecutive year of dividend increase at Marsh & McLennan. Its current dividend yield of 1.6% is higher than the industry average of 1.3%. Although it doesn't expect to buy back shares for 2020, we remain hopeful that the same will resume once the pandemic effect ends.

▲ **Strong ROE:** Further, Marsh & McLennan's trailing 12-month return on equity (ROE) reinforces its growth potential. The company's 31.8% ROE betters its industry average of 27.4%, reflecting its efficiency in utilizing the shareholders' funds.

▲ **Share Price Impact:** In a year's time, shares of the company have outperformed its industry. Its solid fundamentals such as an improving top line and a sturdy balance sheet should continue driving the stock going forward.

Reasons To Sell:

▼ **Low Investment Income:** The company now has a much smaller private equity portfolio and its investment income has been deteriorating over the past few years. In 2018, the company incurred a net investment loss of $12 million against its net investment income of $15 million in 2017. The company reported a net investment loss of $33 million in the first six months of 2020 versus the net investment income of $13 million in the first six months of 2019. Moreover, the low interest rate environment might keep the investment income under pressure.

▼ **Escalating Expenses:** The company's operating expenses escalated over the last several years due to higher compensation and benefits. The same further increased 14.7% and 1.2% in 2019 and the first six months of 2020, respectively. A persistent escalation of expenses might weigh on the company's margins.

▼ **Forex Volatility:** Due to its presence in more than 130 countries, the company is exposed to foreign exchange volatility. Notably, the company is susceptible to the U.S. hurricane season. In the second quarter, the impact of forex was neutral on EPS (assuming exchange rates to remain at the current levels). Management expects forex to have a minimal impact on EPS for the rest of the year.

▼ **Weak 2020 Guidance**: The company expects modest EPS growth in 2020 while underlying revenues are anticipated to fall. Management assumes that the impact of the pandemic will be felt on adjusted EPS in the second half of the year. However, there will be some rebound in some of the areas. The second half of the year will be challenging for Marsh as well. For 2020, the company estimates mid-single digit growth at Guy Carpenter. Management projects Mercer's underlying revenues to decline of through the rest of the year with the metric dipping modestly for 2020. Oliver Wyman is projected to suffer muted revenues through the second half of 2020. It expects to spend around $625 million of cash costs and $75 million of non-cash cost to generate at least $350 million of savings.

▼ **Unfavorable Capital Position:** The company saw its long-term debt level increase from $2.6 billion to $10.7 billion during the 2013-2019 period. Total debt of the company accounts for 60.1% (compared with 57.5% as of Dec 31, 2019) of its capital, higher than the industry average of 55.1%. Its times interest earned now stands at 6.2X (higher than the sequential figure of 5.7X), in line with its industry average. As of Jun 30, 2020, the company had cash and cash equivalents worth $1.7 billion and a $2.8-billion credit facility. It even added a $1-billion line of credit to its borrowing capacity. However, total available cash and credit facilities are lower than its total debt load of $13.2 billion. The company's next debt maturities are in December 2020 and January 2021. The company's high debt load is a concern.

Low investment income and increasing expenses due to higher compensation and benefits should weigh on overall earnings. Its high debt level also bothers.

Last Earnings Report

Marsh & McLennan's Earnings Beat in Q2, Improve Y/Y

Marsh & McLennan delivered second-quarter 2020 adjusted earnings per share of $1.32, surpassing the Zacks Consensus Estimate by 15.8% on reduced expenses and a solid contribution from its Risk and Insurance Services segment. Moreover, the bottom line increased 11.9% year over year.

Marsh & McLennan's consolidated revenues of $4.2 billion dipped 2% on an underlying basis. However, the top line beat the Zacks Consensus Estimate by 0.5% on the back of its strong Risk and Insurance Services segment.

Quarter Ending	06/2020
Report Date	**Jul 30, 2020**
Sales Surprise	**0.51%**
EPS Surprise	**15.79%**
Quarterly EPS	**1.32**
Annual EPS (TTM)	**4.92**

Total operating expenses of $3.3 billion in the second quarter were down 10% year over year owing to lower compensation and benefits as well as other operating expenses.

Quarterly Segmental Results

Risk and Insurance Services

Revenues at the Risk and Insurance Services segment were $2.6 billion, up 2% on an underlying basis. Adjusted operating income rose 19% to $762 million from the prior-year quarter's level.

Marsh, a unit within this segment, generated revenues of $2.2 billion, up 1% on an underlying basis. In U.S./Canada, underlying revenues rose 3% year over year.

Underlying revenue growth from international operations was flat year over year, which includes 4% increase of the underlying metric in the Asia Pacific, a 4% rise in Latin America and a 3% drop in EMEA.

Another unit under this segment, Guy Carpenter, displayed 9% revenue growth on an underlying basis in the quarter under review.

Consulting

The Consulting segment's revenues were down 6% on an underlying basis to $1.6 billion. Also, adjusted operating income fell 13% to $265 million.

A unit within this segment, Mercer, generated revenues of $1.1 billion, down 3% on an underlying basis. Wealth's revenues were down 2% on an underlying basis. Health and Career's revenues were up 1% and down 16% year over year on an underlying basis.

Another unit Oliver Wyman Group registered revenues of $467 million, down 13% year over year on an underlying basis.

Business Update

The company issued $750 million of 10-year senior unsecured notes in the second quarter.

Dividend Update

The company hiked its quarterly dividend to 46.5 cents per share, effective with the third-quarter dividend, payable Aug 14, 2020.

Financial Update

Marsh & McLennan exited the second quarter with cash and cash equivalents of $1.7 billion, up 48.1% from the level at 2019 end.

Net cash provided by operating activities totaled $578 million, up 139.8% year over year.

As of Jun 30, 2020, Marsh & McLennan's total assets were $32.2 billion, up 2.6% from the figure as of Dec 31, 2019.

Total equity was $8.3 billion, up 5.7% from the level at 2019 end.

Recent News

Marsh & McLennan's Arm Buys Stake in Corridor Platforms — May 29, 2020

Marsh & McLennan unit Oliver Wyman recently acquired a minority stake in Corridor Platforms, which is a leading decision workflow governance and automation software provider.
Corridor Platforms will be able to gain traction from Oliver Wyman's experience in the forefront of risk management and advanced analytics. The deal was struck at a time when the market is quite volatile with insurers facing high claims and new threats in the wake of the coronavirus outbreak.

Marsh & McLennan's Unit Acquires Assurance to Boost Portfolio — Apr 2, 2020

Marsh & McLennan Companies, Inc.'s unit Marsh has acquired Assurance Holdings, Inc., one of the leading independent agencies in the United States. The buyout was mainly executed by the middle market agency unit of Marsh known as the Marsh & McLennan Agency LLC (MMA). The combination of the companies is expected to generate better results.

Valuation

Marsh & McLennan's shares are down 0.1% and up 21% in the year-to-date period and over the trailing 12-month period, respectively. Stocks in the Zacks sub-industry and the Zacks Finance sector are up 2% and down 17% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are up 9% and down 9.1%, respectively.

The S&P 500 index isup 2.8% in the year-to-date period and up 12.9% in the past year.

The stock is currently trading at 23.92x forward 12-month earnings, which compares to 21.19x for the Zacks sub-industry, 16.35x for the Zacks sector and 22.69x for the S&P 500 index.

Over the past five years, the stock has traded as high as 24.11x and as low as 14.74x, with a 5-year median of 18.86x. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our $123 price target reflects 25.21x forward 12-month earnings.

The table below shows summary valuation data for MMC

Valuation Multiples - MMC		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	23.92	21.19	16.35	22.69
	5-Year High	24.11	21.19	16.35	22.69
	5-Year Low	14.74	14.5	11.58	15.25
	5-Year Median	18.86	16.84	14.16	17.52
P/S F12M	Current	3.43	3.33	6.04	3.59
	5-Year High	3.43	3.33	6.65	3.59
	5-Year Low	2	1.83	4.95	2.53
	5-Year Median	2.72	2.56	6.06	3.04
P/B TTM	Current	7.93	6.58	2.39	4.46
	5-Year High	7.93	6.85	2.91	4.55
	5-Year Low	3.98	3.33	1.71	2.83
	5-Year Median	5.65	4.63	2.53	3.72

As of 07/30/2020

Industry Analysis Zacks Industry Rank: Top 19% (48 out of 253)

Top Peers

Company (Ticker)	Rec	Rank
eHealth, Inc. **(EHTH)**	Outperform	1
American Financial Group, Inc. **(AFG)**	Neutral	3
Arthur J. GallagherCo. **(AJG)**	Neutral	3
The Allstate Corporation **(ALL)**	Neutral	3
Aon plc **(AON)**	Neutral	3
BrownBrown, Inc. **(BRO)**	Neutral	2
Erie Indemnity Company **(ERIE)**	Neutral	3
Robert Half International Inc. **(RHI)**	Neutral	3

Industry Comparison Industry: Insurance - Brokerage

	MMC	X Industry	S&P 500	AJG	AON	BRO
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	3	3	2
VGM Score	D	-	-	C	C	F
Market Cap	59.07 B	1.58 B	22.57 B	19.83 B	48.03 B	12.69 B
# of Analysts	8	6	14	7	7	5
Dividend Yield	1.59%	0.80%	1.83%	1.72%	0.85%	0.76%
Value Score	D	-	-	D	D	F
Cash/Price	0.03	0.10	0.07	0.13	0.02	0.06
EV/EBITDA	19.27	17.55	12.96	16.80	19.47	18.68
PEG Ratio	2.11	2.40	3.04	2.40	NA	NA
Price/Book (P/B)	7.04	2.60	3.13	3.91	14.73	3.54
Price/Cash Flow (P/CF)	19.44	17.26	12.61	16.70	17.37	23.79
P/E (F1)	24.99	24.99	22.06	26.08	21.26	29.64
Price/Sales (P/S)	3.46	2.94	2.42	2.83	4.33	5.08
Earnings Yield	4.00%	4.00%	4.31%	3.83%	4.71%	3.37%
Debt/Equity	1.43	0.37	0.75	0.85	1.91	0.44
Cash Flow ($/share)	6.00	2.99	6.94	6.26	11.94	1.88
Growth Score	D	-	-	C	B	F
Hist. EPS Growth (3-5 yrs)	11.97%	12.64%	10.85%	10.92%	11.29%	15.14%
Proj. EPS Growth (F1/F0)	0.21%	2.88%	-7.75%	9.86%	6.39%	7.86%
Curr. Cash Flow Growth	11.40%	6.15%	5.39%	9.99%	-0.54%	15.55%
Hist. Cash Flow Growth (3-5 yrs)	9.25%	13.04%	8.55%	13.27%	3.75%	10.82%
Current Ratio	1.37	1.62	1.31	1.07	1.29	0.98
Debt/Capital	58.82%	27.00%	44.32%	45.98%	65.64%	30.42%
Net Margin	11.83%	10.68%	10.44%	10.35%	14.84%	17.69%
Return on Equity	31.82%	14.32%	14.73%	16.38%	63.91%	12.54%
Sales/Assets	0.54	0.35	0.52	0.35	0.38	0.32
Proj. Sales Growth (F1/F0)	0.85%	0.00%	-1.95%	-0.06%	-1.20%	3.66%
Momentum Score	A	-	-	C	C	B
Daily Price Chg	0.98%	-0.36%	-0.92%	-0.22%	0.79%	-0.44%
1 Week Price Chg	0.82%	0.82%	0.37%	0.37%	1.72%	3.89%
4 Week Price Chg	8.18%	3.60%	4.14%	7.43%	8.35%	9.57%
12 Week Price Chg	14.82%	9.50%	12.21%	22.48%	12.23%	20.55%
52 Week Price Chg	18.35%	-6.57%	-1.73%	16.23%	9.19%	24.71%
20 Day Average Volume	1,247,084	41,041	1,887,986	749,477	1,226,515	1,061,129
(F1) EPS Est 1 week change	1.03%	0.00%	0.00%	0.00%	0.00%	5.59%
(F1) EPS Est 4 week change	1.08%	0.21%	0.38%	0.00%	0.21%	5.74%
(F1) EPS Est 12 week change	-1.25%	-1.21%	-0.07%	1.96%	-1.38%	5.45%
(Q1) EPS Est Mthly Chg	2.35%	0.28%	0.16%	0.00%	0.56%	6.74%

The row "Industry Peers" appears above AJG, AON, BRO columns.

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	D
Growth Score	D
Momentum Score	A
VGM Score	D

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

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